

## SPECIAL ALERTS IDENTITY THEFT

A recent TIGTA report indicates that about 1.2 million 2007 ITIN tax returns reported wages earned by ITIN taxpayers using someone else's Social Security Number. In response to the report, the IRS has stated it has already begun to develop a process to match ITIN returns to reporting documents and currently has procedures to identify and notify potential victims of identity theft. The IRS will explore the feasibility of expanding their efforts in situations where it would benefit taxpayers and where the IRS has the capability and the legal authority to do so.



## HEALTH CARE FOR YOUNG ADULTS

Under the Affordable Care Act (part of the recently enacted health care reform legislation), taxadvantaged treatment is now available for employer-provided health care coverage for employees' adult children under age 27. IRS news release IR-2010-53 and Notice 2010-38 provide guidance on this expanded tax benefit.

The Affordable Care Act provides the following expanded health-related tax benefits:

- Coverage under an employer-provided accident or health plan for the employee's adult children who have not attained age 27 by the end of the employee's tax year is excludable from gross income.
  - This favorable tax treatment applies to health care coverage and to medical reimbursements under the employer-provided accident or health plan.
  - Cafeteria plans may permit employees to make pre-tax contributions for adult children under 27.
- Employees may use health FSA funds for qualified expenses of adult children under 27 as well.

A child for this purpose is the employee's son, daughter, stepson, stepdaughter, adopted son or daughter, or eligible foster child. The child does not have to be the employee's dependent. Nor does the child have to live with the employee.

**Example:** Stella Houston's 25-year-old son has graduated from college. He is self-supporting, does not live with Stella, and cannot be claimed as her dependent. However, he does not have his own health insurance. He is covered under Stella's employer's health plan. His coverage is a tax-free benefit for Stella.

Other adult children who are under age 27 do not qualify for this treatment unless they qualify as the employee's dependent. For example, the exclusion from income would not apply to a non-dependent adult grandchild or nephew of the employee, even if the employer plan allows these individuals to come under the employee's insurance.

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This expanded health care tax benefit also applies to:

- Self-employed individuals who qualify for the self-employed health insurance deduction,
- Retiree health benefits paid from pension plans, and
- Voluntary employee benefit associations (VEBAs) that pay health benefits for members.

**The new benefit is effective beginning March 30, 2010.**

Under the Act, group health plans and health issuers that provide dependent coverage of children are required to continue to make such coverage available for an adult child until he or she reaches age 26. (Note: This is different from the new favorable tax treatment which applies until the year the child turns 27.) The requirement goes into effect for plan years beginning on or after September 23, 2010.

## *For the Tax Pro* QUESTION OF THE MONTH

*Q. My clients signed a binding contract with a homebuilder in February to build a house. Under the contract, the targeted completion date was July 15. However, construction is proceeding ahead of schedule and it is very likely the house will be completed and my clients will move in by the June 30 deadline. Neither spouse has owned a home before this one. Will they be able to claim the first-time homebuyer credit? My clients are not in the military.*

**A.** No, they will not be able to claim the credit, even if they move into the home before July 1, 2010. In order to extend the April 30, 2010 closing deadline to claim one of the homebuyer credits, the taxpayer must:

1. Enter into a written, binding contract (prior to May 1, 2010), that specifies a closing date on a principal residence that is before July 1, 2010, and
2. Close on the purchase and occupy the home before July 1, 2010.

Generally, a written binding contract is a contract that is binding on all parties under state law. The contract must show all parties' names and addresses as well as the location and purchase price of the property.

A contract that specifies a closing date after June 30, 2010, or that does not specify a closing date, or is contingent on some event (such as selling a previous house) does not qualify for this purpose, even if the taxpayer closes on the purchase and moves into the house by June 30.

Conversely, if a taxpayer enters into a qualifying written binding contract that requires closing on the purchase before July 1, 2010, but the taxpayer either does not close or does not occupy the home until after June 30, 2010, the purchase does not qualify for the credit. Note: Although legislation has been introduced to further extend the homebuyer credit we have not seen much political support for continuation of the credit.



## Power Seminar Dates Announced

LAYTON, UT—MON. & TUES. DECEMBER 6th & 7th, 2010

Davis Convention Center—Rooms \$99 per night Single/Double occupancy at the adjoining Hilton Garden Inn. For reservations call: 1-800-861-8712.

LAS VEGAS, NV—THURS. & FRI. DECEMBER 9th & 10th, 2010

Treasure Island Resort —Rooms \$89 per night Single/Double occupancy. For reservations call: 1-888-503-8999

ORLANDO, FL—MON. & TUES. DECEMBER 13th & 14th, 2010

Walt Disney's Coronado Springs Resort® Rooms \$119 per night Single/Double occupancy. For reservations call: 1-407-939-1020

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